Remarks of Ambassador Bleich at the Economic Development of Australia Luncheon, WA

(As prepared for delivery – June 13, 2012)

Jack, thank you for that extraordinarily generous introduction. I think that may be one of the nicest introductions I've received. I wish my mother had been here to hear that.

And thank you, too, Liz Ritchie and CEDA for inviting me here today. I'm glad to see you up and about after your knee surgery; you're still ahead of us even with a limp.

A special thanks to our distinguished elected officials, Senator Glen Sterl, and MP Wyatt Roy who represents Vic Park.

It is always a pleasure to address the members of CEDA. I've addressed CEDA groups in other parts of Australia, but it is a special privilege to address you here in Perth. WA was the very first state I visited after presenting my credentials as Ambassador in November 2009. Since then I've been back over 15 times. I come here now for the same reason I came here then: because WA is the most dynamic part of Australia. As the figures last week confirmed, Australia is enjoying phenomenal economic growth that is the envy of the OECD. And it is what is happening here in Western Australia that is driving that growth.

So I'm particularly grateful to address the leaders of economic development in the leading area for economic development.

This International series is an example of that leadership. It offers us the chance to pause and take stock of the opportunities and challenges for Australia as they relate to trade and investment around the world.

I understand previous discussions in the International series have looked at Australia's relationships with Indonesia and at emerging opportunities in Africa. Today, to everyone's great surprise, I'll be talking about the economic relationship with the United States.

Specifically, I'd like to give you a candid assessment of where the U.S. economy actually is right now; a sense of the U.S.-Australia economic relationship and its future; and finally offer a few thoughts about how this relates to China. In particular I'd like to address the fallacy that Australia needs to choose between the U.S. or Australia for its economic future. After that, I'll look forward to opening this up for questions.

U.S. Economy & Economic Statecraft

It's no secret that economic news from beyond Australia's shores reflects some general concern and uncertainty around the world. In the U.S., we have made steady progress in climbing out of a deep recession, but we still face some economic headwinds as we complete our recovery. It will still be a few years before we fully overcome the effects of an overbuilt housing sector and nearly a decade of loose credit. In the meantime, we need our Congress to tame entitlement programs to reduce our debt to restore market confidence. While much of this is within our control, our recovery could be affected by Europe, our largest market, which is struggling with a serious debt crisis. And by China, which faces slowing growth.

And yet, despite these challenges and economic headwinds the recovery has been faster and better than any economist predicted back in 2008. Indeed, back when the Dow was at 6500, we were losing 6% GDP per quarter, and unemployment was spiking near 10%, no one would have thought we'd now have the Dow stable over 12,000, GDP rising, and 22 months of job growth. More importantly, though, the recovery is solid and based on some fundamental and enduring strengths in our economy that bode well for the future.

I'm not going to paint an overly rosy picture – or ignore any of the genuine challenges we still face – but by any measure the future looks encouraging. To give just one example, the IMD Yearbook to which I understand CEDA contributes, recently ranked the United States as the world's second most competitive economy, behind only Hong Kong.

This competitiveness is reflected in what is happening across key sectors of the U.S. economy. Many of you will have heard about shale gas and the return of manufacturing to the United States. The shale gas revolution in the United States is probably the biggest development in the sector since the North Sea came on line in the seventies. In manufacturing, there is a similarly good turnaround story to be told. American factories have added 400,000 manufacturing jobs in the last 2 years, the first sustained growth in that sector since the 1990s. And American business has probably never been as cashed up as it is today. Currently over $2.5 trillion in capital is sitting on the sidelines ready to be deployed.

Long-term, we see our competitiveness only improving. The cost advantage of developing countries like India and China has started to evaporate. For example, a recent study by the Boston Consulting Group predicted that by 2015, China's cost advantage will have shrunk to the point where many manufacturers will prefer to open new plants in the United States rather than China. Already, many companies, including bell-weather companies like GE, are moving some manufacturing jobs back to the United States.

So, while do not want to sugar-coat where we are today, the things that have historically made the U.S. an economic force, remain as potent as ever. The United States still has one of the world's most productive and flexible work forces and innovative entrepreneurs. We have 90 of the world's top 200 universities -- according to a recent international comparison. We invest about $400 billion in R&D every year. That is more than the combined R&D spend of the top 10 Asian economies, including China, India, and Japan.

And our demographics are good. Unlike China and Japan, the second and third largest economies in the world, the U.S. population is still growing and will continue to grow over the next couple of decades.

So while we have our challenges, I'm not troubled by the perennial doomsayers who make the usual "sky is falling" claims – "the jobs will never come back," "there will be double-dip recession," "the U.S. is in decline." The evidence is just the opposite. The United States remains the largest economy in the world by a factor of three. It is going to be the key economic player in the world for a long time to come.

Growing U.S.-Australia Economic Links

Now how does this affect Australia?

Some pundits say that while the U.S. may remain a major economic force in the world, it will be less significant economically to Australia. After all, China is now Australia's largest trading partner. Chinese growth, and robust Chinese demand for Australian resources --$44 billion in iron ore in 2010 alone -- helped the Australian economy weather the global financial crisis. For this reason, some people – none of you, of course – claim that the U.S. is becoming less relevant to Australia. They argue that, going forward, the Australian economy will be tied principally to Asia.

What is missing from this narrative is the rest of the picture. The important elements of an economic relationship involve not merely gross trade, but investment, and the nature of the trade.

When it comes to investment, Australia's greatest friend and benefactor is the United States by a wide, wide margin. The U.S. is betting on Australia, and that bet is a key contributor to Australia's economic success. U.S. direct investment in Australia doubled from 2006 to 2010, from US$67 billion to US$134 billion. The stock of U.S. FDI (foreign direct investment) in Australia exceeds our investment in any other Asia-Pacific economy, including Japan (US$113 billion), and China (US$60 billion)

According to the Australian Bureau of Statistics, the total bilateral stock U.S.-Australia investment was almost $1 trillion in 2010. This includes investment in both directions, as well as both direct and indirect portfolio investment.

Just to give you some comparison, this figure is 50% greater than Australia's next largest investment relationship, with the UK, and is more than 6 times the third largest, with Japan. And the U.S.-Australia investment relationship is more than 30 times bigger than the stock of Australia-China two-way total investment. Let me just repeat that -- U.S.-Australia two-way investment is 30 times the size of China-Australia investment.

These figures are compelling, but even they do not fully capture the sums that are flowing now and will continue to flow in the years ahead from American companies such as Chevron, ConocoPhillips, and ExxonMobil, investing in huge projects from WA to Queensland. The U.S. is all-in here. The U.S. believes that open, rules-based economies are the ones most likely to succeed long term, and that is where our companies and investors are putting their money. All of this American investment supports thousands of Australian jobs and billions of dollars of Australian exports, including much of what Australia sells to Asia.

These long-term investments mean that America's position as the leading source of FDI in Australia is growing stronger and will continue to grow relative to all other partners. So if you just look at the cold, hard facts, it is very clear. The U.S. is not being overtaken by any other of Australia's economic partners.

The other factor to pay close attention to is the kind of trade involved.

Our trade is not skewed to just one commodity or industry. Yesterday I participated in the arrival of the second of twenty-two new U.S.-made locomotives that will be used to deliver grain to market throughout WA's wheat belt. This is not only a great story for the two U.S. companies: Motive Power, who manufactured the locomotives, and Watco, the rail services firm. It's a success story for the Australian client, CBH, it's a success for the local company GemCo, which is installing Australian technology and certifying the locomotives are good to operate in Australia. And it is a success for Australia's bid to become Asia's food-bowl.

Later today I will visit another American company, Honeywell, and see a demonstration of their remote processing systems. This technology is a game changer for a land as vast as Western Australia. With resources in such remote locations – not to mention what is offshore – remote processing systems means progress will come much more quickly. Industry does not have to wait for Australians to move to remote locations.

Late last year, IBM announced a multi-million dollar investment in a state of the art global R&D lab in Melbourne. IBM has also established a natural resources solution center here in Perth.

So while the U.S. trade relationship may be Australia's third largest, that figure doesn't capture the impact of U.S. trade and commerce. The U.S. investment of technology and human resources, of know-how and can-do, of personal and business relationships – is critical to advancing Australia's economy. The United States sends some our most sensitive knowledge and intellectual property here, both in the form of exports and investment, that unlocks crucial parts of the Australian economy.

The benefits of U.S. investment and innovation flow both ways. Australia sends some of its most cutting edge and innovative goods and services to us, from biological pharmaceuticals to software to engineering products.

Australia is a key part of the supply chain for some of the world's most innovative products. Exhibit A is the Boeing 787 Dreamliner. The jetliner's revolutionary "wing flaps" – are manufactured in this country. In fact, Australia is Boeing's second largest operation in the world. I was just aboard the Dreamliner last week and this will be one of the world's most popular aircraft, creating more jobs and skills and funds for Australia.

And this is the point. As partners, we are helping each other meet the challenges of the next decade. I am sure that many of you are following the debate on advanced manufacturing led by Dow CEO – and Australian citizen – Andrew Livaris. He currently serves as co-Chair of the President's Commission on Manufacturing. He's demonstrated that while certain simple products will be more efficiently made in less developed countries, that just creates more opportunity for our nations to capture high-end manufacturing. Countries like the United States and Australia, despite our relatively high-cost environments, remain attractive places to develop innovative new technologies, and to manufacture products based on these technologies for world markets.

Finally, we are more than a business partner, we're an ally. We share the same commitment to free trade, open markets, and rule of law, and so we work beyond basic trade to help solve one another's problems. We don't care simply about price – we care about success. This is why we've worked with the Australian federal government to streamline the process for bringing skilled labor to Australia. I was out here in Perth a year ago, and every company we talked to raised the same concern – there were not enough skilled tradesman to handle the volume of investment being made here. So, we went back to Canberra, and working with the Australian government, we developed the Joint Skills Initiative, or JSI. The point is to get available, qualified, skilled, and experienced workers here to Australia to ensure that until the Australian labor market catches up, key construction and mining projects won't be held back.

American workers are a natural fit. We speak the same language, mostly. We work with the same companies in the same sectors – in fact U.S. businesses pioneered most of these mining and minerals industries. And many of our trades people have served in the military, so they are used to working for some period of time far from home in remote locations. And we leave when we're done.

Very briefly, this is how the JSI works. The JSI will allow Australian companies to assess American trades people while they are still in the United States. That way, when they arrive in Australia, they can hit the ground running. Currently, it takes some months after arriving in Australia to get the proper qualification to work. This program will address these delays and increase employers' confidence that they will be able to bring fully qualified American workers on site right away.

The Australian government also agreed to conduct job fairs in the United States, the first of which was held this past May in Houston and was highly successful. We had more than 2000 applicants for almost 700 positions.

This is a real win-win. That's why the JSI received endorsements from the Business Council of Australia, the Australia Industries Group, and both the American Chamber of Commerce here in Australia and the U.S. Chamber of Commerce in the United States.

Taken together, our investment, our trade, and our people-to-people relationships mean that the United States remains Australia's leading economic partner. This is not about to change.

China

Finally, as promised, let me say a few words about Australia-U.S.-China relations. Let me be clear about this. There is no "dilemma" for Australia in having the United States as its leading ally and strategic partner and China as its largest trading partner. The U.S. is Australia's key strategic partner and China is Australia's largest trade partner, and both of those can continue in harmony.

The notion that there is some "zero-sum" rivalry between the U.S. where only one can win and the other must lose, and countries will have to choose sides, has no basis in reality.

Both the United States and Australia have an enormous stake in the rise of Asia. China is urbanizing somewhere on the order of 20-30 million people a year and will continue to do so well into the next decade. Australian iron ore and coal are pouring into Asian mills to provide the steel needed to meet the needs – the houses and cars and trains – of this great wave of new urban dwellers. This makes Australia's economy stronger, and it makes the U.S. economy stronger. In fact the U.S., Australia, and China's economies are interdependent. We all are heavily invested in each other's markets and investment.

We also understand, as Secretary Clinton has said, there is no inevitable conflict between an established power and a rising power. We see this as an opportunity, not a threat.

Far from trying to contain China's rise or look for winner-take-all contests, what we are trying to do with China is to build a resilient relationship that allows both of our nations to thrive without unhealthy rivalry, or conflict. Both nations are have invested heavily in deepening our engagement: from President Obama's eleven meetings with Chinese President Hu, to the annual Strategic and Economic Dialogue process, which is led by our Secretary of Treasury and Secretary of State. We've completed hundreds of agreements with China in the past two years on everything from energy, science and technology, commerce and trade, investment and other matters. The expansion of the U.S.-China dialogue under President Obama has been unprecedented. It is so great that I think it may not be fully understood outside of our two countries. This may explain the false narrative that I so often see here.

The relationship we seek -- based on free trade, open markets, fair currency valuation, respect for IP, and protection of the rule of law – breeds fair competition. It will allow all nations to thrive without unhealthy rivalry or conflict.

So, let's be clear. This is not rhetoric. The United States genuinely welcomes a strong, prosperous, and successful China that plays a greater role in world affairs, including in major global economic institutions. We expect China to rise, and we've aligned our own interests with a rising, prosperous China. The aspiration for a better life and better lifestyles on the part of millions of Chinese is something that in the long-term will increase the markets for all of our goods and services, and create better investment opportunities.

So we have a strong interest in China's continued economic growth. And we want China to be an engaged partner in all of the matters that go with being a major economic power, including addressing threats to regional and global security, from climate change to nuclear proliferation.

There will continue to be areas where we have differences with China. That is to be expected; but through our ongoing, intensive consultations we will work to remove misunderstanding, mistrust, and miscalculation, and expand opportunities for cooperation.

But make no mistake, we are pursuing a stronger, more integrated economy. America has put economics and market forces at the center of U.S. foreign policy. To ensure that growth and prosperity are sustainable and broad-based, we have to all work together to create a rule-based international economic order – one that is open, free, transparent, and fair for all. In that project, we have no better friend, than Australia. And for that we are deeply grateful. And because of that, we are very optimistic.

So, to conclude.

The U.S. economy is shaping up well for the next century. The U.S. economy has come a long way in the past 3 years. While times remain tough, our fundamentals remain unmatched. It has never paid to bet against the U.S. economy, and it still doesn't pay to do so.

The U.S.-Australia relationship is vital to both our countries' success. America and Australia have come through some tough times together. We, like Australia, have an open society, and a political system that give us the flexibility to make the needed policy changes going forward. These common values have been the bedrock of our relationship over the sixty years of our alliance and will remain so into the future.

Finally, our shared vision provides us with the confidence to face this dawning Asia-Pacific Century with optimism and hope. We both have a major stake in the peaceful rise of Asia, which promises to reinforce, not undermine, the importance of our bilateral relationship.

Thank you for your attention. I'll be happy to entertain your comments and questions.